

Disaggregated Commitments of Traders Report

Explanatory Notes

The Commodity Futures Trading Commission (Commission) will begin publishing a *Disaggregated Commitments of Traders* (Disaggregated COT) report on September 4, 2009. The first iteration of the new report will cover 22 major physical commodity markets.¹ This report will be published in a futures-only format as well as a futures-and-options-combined format. The data will be available in both a long format and a short format².

The new report increases transparency from past *Commitments of Traders* (COT) reports by separating traders into the following four categories of traders: Producer/Merchant/Processor/User; Swap Dealers; Managed Money; and Other Reportables. The current report separates reportable traders only into “commercial” and “noncommercial” categories.

This new Disaggregated COT report will be published side-by-side with the traditional COT formats at least through the end of 2009. The Commission is soliciting comment on the new report and will review whether to continue to publish both side-by-side or to replace the existing report with the new report.

This initiative for providing new market transparency arises from the recommendation to disaggregate the existing “commercial” category in the Commission’s September 2008 *Staff Report on Commodity Swap Dealers & Index Traders*.³ Specifically, that report recommended:

Remove Swap Dealer from Commercial Category and Create New Swap Dealer Classification for Reporting Purposes: In order to provide for increased transparency of the exchange traded futures and options markets, the Commission has instructed the staff to develop a proposal to enhance and improve the CFTC’s weekly *Commitments of Traders* Report by including more delineated trader classification categories beyond commercial and noncommercial, which may include at a minimum the addition of a separate category identifying the trading of swap dealers.

¹ Data for the other physical commodity markets for which we currently publish COT data should become available shortly. When data for these other physical markets are published, they will also be published side-by-side with the traditional COT formats at least through the end of 2009. As a separate endeavor, staff is working to create a new disaggregated COT for all of the financial markets in a form that will improve the transparency of those markets. This may be different than the disaggregation being applied to the physical markets.

² Reports are available in both a short and long format. The short report shows open interest separately by reportable and nonreportable positions. For reportable positions, the data show, by specific categories of traders, the positions, the changes from the previous report, the percents of open interest, and the numbers of traders. The long report, in addition to the information in the short report, groups the data by crop year, where appropriate, and shows the concentration of positions held by the largest four and eight traders.

³ That report is available at <http://www.cftc.gov/stellent/groups/public/@newsroom/documents/file/cftcstaffreportonswapdealers09.pdf>

The new *Disaggregated Commitments of Traders Report*

The Commission, by regulation, collects confidential daily large-trader data as part of its market surveillance program. The data, which also supports the traditional, weekly COT report, will now be separated into the following categories⁴:

- 1) “Producer/Merchant/Processor/User,”
- 2) “Swap Dealers,”
- 3) “Managed Money,” and
- 4) “Other Reportables.”

Trader Classification

Staff use Form 40 data⁵ and, where appropriate, conversations with a trader and other data available to the Commission regarding a trader’s market activities to make a judgment on each trader’s appropriate classification.

Some multi-service or multi-functional organizations have centralized their futures trading. In such cases, their Form 40 may show more than one of the new categories. Division of Market Oversight staff place each reportable trader in the most appropriate category based on their predominant activity. In most cases, the choice of category is clear, but in some cases judgment must be exercised by Commission staff as to what is a trader’s predominant activity.⁶

Some parent organizations set up separately reportable trading entities to handle their different businesses or locations. In such cases, each of these entities is analyzed separately for determining their proper Disaggregated COT classification.

A trader’s classifications may change over a period of time for a number of reasons. A trader may change the different ways it uses the markets, may trade additional or fewer commodities, and may find that its client base evolves. These changes may lead to changes in classifications and categories and/or changes in the commodities to which a trader’s various classifications apply. Moreover, a trader’s classification may change because the Commission has received additional information about the trader.

⁴ These four categories in the new Disaggregated COT are derived from trader responses on the Form 40 (version of May 2000), including information contained on Schedule 1 of that form. (Available at <http://www.cftc.gov/stellent/groups/public/@forms/documents/file/cftcform40.pdf>).

⁵ The Form 40 is required under CFTC Regulation 18.04 to be completed by reportable traders. Failure to file a Form 40, or failure to answer truthfully, is a violation of the Commodity Exchange Act and CFTC regulations, and violators are subject to criminal or administrative sanctions. An updated Form 40 is requested of a trader every 2 years, or more often at the discretion of CFTC staff, if the trader remains reportable. The Form 40 is subject to audits or spot checks as conditions warrant. CFTC staff members are available to large traders and their representatives to answer questions about the proper way to complete a Form 40 and to help interpret it in unusual circumstances.

⁶ For example, a trader that has filed for an exemption from Federal position limits on the basis of their corn processing requirements would likely be placed in the producer/merchant/processor/user category, whereas an investment bank that seeks an exemption on the basis of their swaps activity in corn would likely be placed in the swap dealer category.

Content of the *Disaggregated Commitments of Traders Report*

Producer/Merchant/Processor/User

A “producer/merchant/processor/user” is an entity that predominantly engages in the production, processing, packing or handling of a physical commodity and uses the futures markets to manage or hedge risks associated with those activities.

Swap Dealer

A “swap dealer” is an entity that deals primarily in swaps for a commodity and uses the futures markets to manage or hedge the risk associated with those swaps transactions. The swap dealer’s counterparties may be speculative traders, like hedge funds, or traditional commercial clients that are managing risk arising from their dealings in the physical commodity.

Money Manager

A “money manager,” for the purpose of this report, is a registered commodity trading advisor (CTA); a registered commodity pool operator (CPO); or an unregistered fund identified by CFTC.⁷ These traders are engaged in managing and conducting organized futures trading on behalf of clients.

Other Reportables

Every other reportable trader that is not placed into one of the other three categories is placed into the “other reportables” category.

Spreading

The Disaggregated COT sets out open interest by long, short and spreading for the three categories of traders—“swap dealers,” “managed money,” and “other reportable”. For the “producer/merchant/processor/user” category, open interest is reported only by long or short positions. “Spreading” is a computed amount equal to offsetting long and short positions held by a trader. The computed amount of spreading is calculated as the amount of offsetting futures in different calendar months or offsetting futures and options in the same or different calendar months. Any residual long or short position is reported in the long or short column. Inter-market spreads are not considered.

Numbers of Traders

The sum of the numbers of traders in each separate category typically exceeds the total number of reportable traders. This results from the fact that, in the “swap dealers,” “managed money,” and “other reportables” categories, “spreading” can be a partial activity, so the same trader can fall into either the outright “long” or “short” trader count, as well as into the “spreading” count. Additionally, a reportable “producer/merchant/processor/user” may be in both the long and the short position columns. In order to preserve the confidentiality of traders, for any given commodity where a specific category has fewer than four active traders, the size of the relevant positions will be provided but the trader count will be suppressed (specifically, a “.” will appear for trader counts of fewer than four traders).

⁷ An unregistered fund may have a Part 4 exclusion from CTA/CPO registration or be a non-U.S. entity that is unregistered. So called “hedge funds” are included in this category, regardless of whether they are registered.

Historical Data

Over the short term, Commission staff will work to release three years of historical data for the new Disaggregated COT report.

Potential Limitations of the Data

Commission staff reviewed the reasonableness of a trader's classification for many of the largest traders in the markets based upon Form 40 disclosures and other information available to the Commission. As described above, the actual placement of a trader in a particular classification based upon their predominant business activity may involve some exercise of judgment on the part of Commission staff. Some traders being classified in the "swap dealers" category engage in some commercial activities in the physical commodity or have counterparties that do so. Likewise, some traders classified in the "producer/merchant/processor/user" category engage in some swaps activity. Moreover, it has always been true that the staff classifies traders not their trading activity. Staff will generally know, for example, that a trader is a "producer/merchant/processor/user" but we cannot know with certainty that all of that trader's activity is hedging. Staff is working on improvements to the Form 40 and other methodologies in order to improve the accuracy of the trader classifications. When large reporting or classification issues are found, an announcement is made and corrections are published as quickly as possible.

Comparison of the *Disaggregated Commitments of Traders Report* to the Traditional *Commitments of Traders Report* and the *Commodity Index Trader Supplement to the COT Report*

The traditional COT reports divide reportable traders into the two broad categories of "commercial" and "non-commercial". The "commercial" trader category has always included producers, merchants, processors and users of the physical commodity who manage their business risks by hedging. It has also included swap dealers that may have incurred a risk in the over-the-counter (OTC) market and then offset that risk in the futures markets, regardless of whether their OTC counterparty was a commercial trader or a speculator. Those two categories of what has been reported as "commercial" traders are being separately reported in the Disaggregated COT. The "non-commercial" category of the traditional COT included professional money managers (CTAs, CPOs, and hedge funds) as well as a wide array of other non-commercial (speculative) traders. These two categories of what has been reported as "non-commercial" traders are being separately reported as "money managers" and "other reportables" in the Disaggregated COT.

The commodity index trader (CIT) supplement to the COT has been published for 12 agricultural commodities since January 2007. There will be some relationship between "index traders" positions in that supplement and "swap dealer" positions in the Disaggregated COT, but there are specific differences. The "swap dealer" category of the Disaggregated COT includes some swap dealers that do no commodity index business and were, therefore, not in the Index Traders category of the CIT Supplemental. Also, the "index trader" category of the CIT supplement includes pension and other investment funds that placed their index investment directly into the futures markets rather than going through a swap dealer. Those traders will be classified as "managed money" or "other reportables" in the new DCOT, depending on the specific details of their business and trading.